

ISSUE DATE: November 1, 2000

DOCKET NO. P-405/AM-00-793

ORDER APPROVING DEAVERAGED RATES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Gregory Scott
Edward A. Garvey
Joel Jacobs
Marshall Johnson
LeRoy Koppendrayner

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of Frontier Communications of
Minnesota, Inc. to Geographically Deaverage
Rates to Reduce Local Service Rates in
Currie, Lake Wilson and Slayton Exchanges

ISSUE DATE: November 1, 2000

DOCKET NO. P-405/AM-00-793

ORDER APPROVING DEAVERAGED
RATES

PROCEDURAL HISTORY

On June 26, 2000, Frontier Communications of Minnesota, Inc. (Frontier) petitioned to deaverage (reduce) rates in its Currie, Lake Wilson and Slayton exchanges.

On August 7, 2000, Frontier amended its filing and requested that the proposed rate reductions apply only within the municipal boundaries of these exchanges.

On September 18, 2000, the Minnesota Department of Commerce (the Department) submitted its analysis. The Department supported the price reductions requested by Frontier for business and residential rates in Slayton, recommended a smaller reduction than requested for business rates in Currie and residential rates in Lake Wilson, and recommended no rate reduction for residential rates in Currie. The Department also requested that the Commission vary the timelines specified in the AFOR plan to allow its comments into the record.

The Commission met on October 17, 2000 to consider this matter.

FINDINGS AND CONCLUSIONS

I. THE DEPARTMENT'S REQUEST TO VARY TIMELINES

Frontier's Alternative Form of Regulation plan (AFOR) states that reply comments on rate filings may be filed by the 43rd day from the initial filing. The Department asked the Commission to vary this provision to allow the Department's comments, which were filed beyond the time stated in the AFOR, into the record.

The Commission finds that there is good cause to vary the timeline provided in the AFOR and receive the Department's comments. No one is prejudiced by the late filing and, indeed, the Commission and the public benefit by having the Department's comments in the record where they can be considered in determining this matter. The Commission will, therefore, accept the Department's filing and consider it as a part of the record in this matter.

II. FRONTIER'S REQUEST TO LOWER RATES

A. Frontier's Proposal

In its initial filing, Frontier proposed rate reductions that would result in geographically deaveraged rates for its business and residential service in the Company's Curie, Lake Wilson, and Slayton exchanges. The Company proposed to reduce its rates in all three exchanges to the following levels: residence--- \$9.99; business (one-party and key-trunk)---\$19.95; and school service (one-party and key-trunk)---\$17.95.

Frontier stated that it faces competition from Dakota Telecom, Inc. (DTI), a competitive local exchange carrier (CLEC) in these exchanges. Frontier explained that DTI, under the name McLeodUSA, is the incumbent cable television provider in these exchanges and has overbuilt the densest areas in these communities. Frontier argued that its request was necessary in order to respond to competition from DTI. Frontier argued that this request is similar to its Commission approved requests to establish reduced, deaveraged rates in its Worthington exchange.¹

In its August 7, 2000 filing, Frontier amended its request, requesting that the proposed reduced rates apply only within the municipal boundaries of those exchanges. Frontier stated that restricting the reduction to within the municipal boundaries (where it faces competition from DTI) was consistent with the Commission's recent decision to allow Frontier to reduce (geographically deaverage) rates in areas of its Adrian and Edgerton exchanges where it faces competition.²

In comments filed September 18, 2000, the Department supported the price reductions requested by Frontier for Slayton, recommended a smaller reduction than requested for Currie (business) and Lake Wilson (both business and residential), and recommended a zero price reduction for Currie (residential).

¹ The Commission allowed Frontier to deaverage residential service rates for its Worthington customers in Docket No. P-405/AM-99-914 and to deaverage service rates for its business and school services in Worthington in Docket No. P-405/AM-99-1712.

² *In the Matter of Frontier Communications of Minnesota, Inc.'s Request to Geographically Deaverage Rates to Reduce Local Service Rates in its Adrian and Edgerton Exchanges*, Docket No. P-405/AM-00-367, ORDER GRANTING INTERIM RELIEF (July 27, 2000).

B. The Department's Comments and Recommendation

The Department applied its imminent and actual competition framework to Frontier's proposals. The Department found that since DTI had completed facilities that pass over 50 percent of the customer base in each exchange DTI met the Department's imminent competition test and, thus, had shown "good cause" to deaverage residential rates in the three exchanges. In such circumstances, the Department argued, Frontier should be allowed to reduce rates to the competitor's level, as long as the rate does not fall below economic cost.

Regarding the economic cost issue, the Department explained that it analyzed Frontier's proposed price reductions using the same methodology it used in the Adrian/Edgerton case.³ The Department compared the average revenue collected from residential and business customers in each exchange (for local service, toll access, and vertical services based on the proposed, lower prices) to the average forward looking monthly cost estimates for the **lowest cost cluster** from the Hatfield Associates Inc. (HAI) cost model.

The Department conducted this analysis for each of the exchanges where Frontier proposed to reduce its rates. Frontier provided the Department with information on the average revenue collected from residential and business customers in each exchange for local, toll access, and optional vertical services using the lower prices. Frontier provided cost information based on the default run of the HAI model, and a model run based on more accurate line count data.

Based on this analysis, the Department found that the proposed reduced rates in the Slayton exchange produced revenue estimates that exceeded the averaged costs and, therefore, recommended that the Commission approve Frontier's requested price reductions for the Slayton exchange. The Department also found that the revenue estimates for the Currie and Lake Wilson exchanges did not exceed costs.

Instead of immediately recommending rejection of the proposed Lake Wilson and Currie rates, the Department modified the Adrian/Edgerton methodology to look at residential and business rates separately. Based on this modified approach, the Department developed what it considered minimum allowable prices, i.e the prices for residential or business customers at which revenues equal the central cluster cost estimates.

Lake Wilson Business Service: the Department found that revenues for business service based on Frontier's proposed business rates exceeded the central cluster cost estimate. The Department concluded, therefore, that Frontier's proposed business rates should be approved.

Lake Wilson Residential Service: the Department found that the revenues for Lake Wilson residential service based on Frontier's proposed reduced rate would not exceed the central cluster cost estimate. The Department recommended that the minimum allowed rate for Lake Wilson residential service be \$14.36 rather than Frontier's proposed \$9.95.

Currie Business Service: the Department found that a rate of \$21.84 would result in revenue

³ See Footnote 2.

equal to the central cluster cost estimate. The Department, therefore, recommended that the Commission approve a \$21.84 rate rather than Frontier's requested \$19.95 rate.

Currie Residential Service: the Department found that Frontier's proposed residential rates would produce average revenues below the level of cost for the central cluster. The Department recommended against approving any change in Currie residential rates.

Subsequently, Frontier accepted the Department's recommendations and modified its rate reduction requests accordingly.

C. Commission Analysis and Action

On, May 15, 1996, the Commission approved an *Amended Plan for an Alternative Form of Regulation (AFOR) for Frontier Communications of Minnesota, Inc.*, Docket No. P-405/AR-95-1048. Frontier's AFOR states:

Frontier may propose the deaveraging of rates during the term of the plan as set forth in Minn Stat § 237.771 ... for good cause shown, including consideration of the ability to respond to competition.

Similarly, Minn. Stat § 237.771 states:

Rates of a telephone company under a plan must be the same in all geographic locations of the state except for good cause. A plan may contain provisions that define good cause, including consideration of the ability to respond to competition.

At the same time, Minn. Stat. § 237.762, subd. 3(a), referring to companies under AFOR agreements, requires that "rates or prices must not be reduced below the total service long-run incremental cost of providing the service."

The Commission finds that Frontier faces competition from DTI in the three exchanges in question (Slayton, Currie, and Lake Wilson) within the areas where it seeks to reduce rates (within municipal boundaries) and has good cause to reduce their rates in response in a non-predatory manner. The Commission notes that Frontier does not propose to reduce rates below its competitor's rates. This, however, does not mean that Frontier's proposed rate reductions comply with the prohibition against AFOR-regulated companies reducing their rates below the total service long-run incremental cost of providing the service.

In this case, Frontier has modified its rate reduction proposal to request only rates that the Department's analysis shows to produce revenues be above the total service long-run incremental cost of providing the service. The record demonstrates that the rates currently requested by Frontier comply with the statute. There is nothing in the record indicating non-compliance with the revenues-above-costs requirement of Minn. Stat. § 237.762, subd. 3(a). Based on a finding of "good cause" (competition in three exchanges in the areas where Frontier proposes to offer the lower rates) and a further finding that the proposed rates do not conflict with **Minn. Stat. § 237.762, subd. 3(a)**, **the Commission will approve the rate reductions requested by Frontier (i.e., modified from its original proposal to accept the rates recommended by the Department) as set forth in Ordering Paragraph 2.**

ORDER

1. The Commission hereby varies the timelines specified in Frontier's AFOR plan for the receipt of comments on proposed rate reductions to accept into the record of this matter the comments of the Minnesota Department of Commerce filed September 18, 2000.
2. The Commission approves the following rates (all but one rate reduced) in the municipal areas of the Currie, Lake Wilson, and Slayton exchanges:

	Current rate	Approved Rate
Currie Residential	\$15.56	\$15.56 (same as current rate)
Currie Business	\$35.77	\$21.84 (reduced rate)
Currie School	\$26.70	\$20.84(reduced rate)
Lake Wilson Residential	\$15.72	\$14.36 (reduced rate)
Lake Wilson Business	\$35.93	\$19.95 (reduced rate)
Lake Wilson School	\$26.82	\$17.95 (reduced rate)
Slayton Residential	\$13.09	\$ 9.99 (reduced rate)
Slayton Business	\$30.14	\$19.95 (reduced rate)
Slayton School	\$22.47	\$17.95 (reduced rate)

The rates thus approved shall become effective upon Frontier's filing tariffs reflecting the changes and an implementation date.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

This document can be made available in alternative formats (i.e., large print or audio tape) by calling (651) 297-4596 (voice), (651) 297-1200 (TTY), or 1-800-627-3529 (TTY relay service).